

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Debra Figone

SUBJECT: SEE BELOW

DATE: June 4, 2010

**SUBJECT: ADDITIONAL COMPENSATION AND BENEFIT CHANGES FOR
EXECUTIVE MANAGEMENT AND PROFESSIONAL EMPLOYEES IN
UNIT 99 AND OTHER UNREPRESENTED EMPLOYEES**

COUNCIL DISTRICT: N/A
SNI AREA: N/A

RECOMMENDATION

Adoption of a resolution approving additional compensation and benefit changes for executive management and professional employees in Unit 99 and other unrepresented employees, effective June 27, 2010.

OUTCOME

Adoption of the resolution and authorization to approve additional compensation and benefit changes for executive management and professional employees in Unit 99 and other unrepresented employees, effective June 27, 2010.

BACKGROUND

Executive Management and Professional Employees (Unit 99) consists of approximately 240 full-time budgeted positions, including Senior Staff, Executive Staff, senior managers under the City Manager's Appointing Authority, Council Office staff, and professional or management employees under the appointing authority of the City Attorney, City Auditor, and Independent Police Auditor. In addition, there are employees in Unit 99 who work in the City Clerk's Office and the Redevelopment Agency. The annual base pay of employees in Unit 99 ranges from approximately \$32,000 to \$227,000. Employees in Unit 99 are exempt employees and therefore do not receive overtime.

The category of Other Unclassified Non-Management employees (Units 81 and 82) includes the Analyst- Independent Police Auditor classification under the appointing authority of the Independent Police Auditor and part-time unbenefitted employees, such as Lifeguards and Student Interns. Employees in this group progress through steps in the salary ranges to the top step, automatically, after working a designated amount of time (six months or one year) at a particular salary step.

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In November 2009, the City Council in open session approved a goal of reducing the total ongoing employee compensation by 5%. In March 2010, the City Council approved the Mayor's Budget Message, which expanded the goal to include an additional 5% in personnel cost savings, including ongoing or one-time savings. As a result, the goal was to achieve a total compensation reduction of 10%. "Total compensation" is the total cost to the City of pay and benefits, including base pay, retirement contributions, health insurance and other benefits. Total compensation is calculated using budgeted salary and fringe benefit costs for the employee unit. It does not include overtime that an individual employee may earn.

On April 27, 2010, the City Council approved recommended compensation changes for Executive Management (Unit 99) and unrepresented employees for the first 5% ongoing total compensation reduction. The first 5% ongoing total compensation reduction included a 4.75% base pay reduction, changes to health insurance cost sharing and plan design, changes to sick leave payout and changes to disability leave supplement. The proposed change to sick leave payout for former employees that had at least 15 years of service in the Federated City Employees' Retirement System at the time the employee left City service, but have not yet retired, was deferred in order to allow staff to provide additional information on the matter. Staff indicated that discussions were still occurring about the additional 5% reduction goal and that the results of these discussions would be brought forward at a later date. This memorandum includes the recommendations for the additional 5% total compensation reduction by increasing retirement contributions. In addition, it addresses the sick leave payout recommendations for employees who have separated from City service on or before June 26, 2010, with 15 years of service.

Changes in compensation for the six Council Appointees (City Manager, City Attorney, City Clerk, City Auditor, Independent Police Auditor, and the Redevelopment Agency Executive Director) are determined by separate Council action.

ANALYSIS

The following is a summary of the additional compensation and benefit changes for executive management and professional employees in Unit 99 and other unrepresented employees that are recommended to be implemented upon approval by the City Council:

Sick Leave Payout	<p>In addition to the changes approved by Council on April 27, 2010, the following additional change is recommended to address former employees who have not yet retired:</p> <p>Employees who separate from City service on or before June 26, 2010, and who have at least 15 years of service in the Federated City Employees' Retirement System but have not yet retired, will receive a sick leave payout upon their retirement at the rate that was available at the time of their separation from City service.</p>
Additional Retirement Contribution	<p>Effective June 27, 2010 through June 28, 2011, all employees will make an additional retirement contribution in the amount of 7.5% of pensionable compensation, and the amounts so contributed will be applied to reduce the</p>

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contributions that the City would otherwise be required to make during that time period for the pension unfunded liability, which includes the current service deficiency and prior service deficiency for basic retirement benefits and current service deficiency and prior service deficiency for the cost-of-living (COL) retirement benefit. This additional employee retirement contribution would be in addition to the employee retirement contribution rates that have been approved by the Federated City Employees' Retirement System Board.

The intent of this additional retirement contribution by employees is to reduce the City's required pension retirement contribution rate by a commensurate 7.5% of pensionable compensation, as illustrated below:

Federated (Fiscal Year 2010-2011)			
	City	Employee	Total
Current Contribution Rates	29.59%	10.30%	39.89%
Contribution Rates With Additional Employee Contributions	22.09%	17.80%	39.89%

Note: Additional contributions made by employees do not affect the retiree healthcare rates.

These contributions shall be treated in the same manner as any other employee contributions. Accordingly, the intent of these additional payments will be made on a pre-tax basis through payroll deductions pursuant to IRS Code Section 414(h)(2) and will be subject to withdrawal, return and redeposit in the same manner as any other employee contributions.

In the event that the additional employee contributions are not implemented by June 27, 2010, the additional employee contribution will increase to make up for the missed contributions. For each pay period commencing after June 27, 2010, in which the additional employee contribution rate is not increased, the additional dollar amount that would have been contributed had the increased rate been implemented on June 27, 2010, will be divided by the number of missed pay periods and that amount will be collected over the same number of pay periods after the increased rate has been implemented.

For example, if the additional contributions do not begin until August 22, 2010 (pay period #18) the employee contributions for each of the

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subsequent four (4) pay periods would include both the contribution for the current pay period and a contribution for one (1) missed pay period.

In order to implement this provision, an amendment must be made to the Federated City Employees' Retirement System that requires an ordinance amending the San Jose Municipal Code. In addition, the City will request that the Federated City Employees' Retirement System Board have its actuary confirm that an increase of the employee contribution of 7.5% will reduce the City's contribution rate by 7.5%.

In the event that these additional employee retirement contributions are not implemented for any reason by September 1, 2010, or are ceased for any reason thereafter, or the Federated City Employees' Retirement System Board's actuary confirms that the City's contribution rate could not be reduced by the same 7.5%, no additional employee contributions shall be required and the equivalent amount of 5% of total compensation would be taken as a temporary base pay reduction with retroactive deductions taken as described above.

For those unrepresented employees who are not in the City's retirement system, an equivalent amount of a 5% total compensation reduction will be taken as a temporary base pay reduction, excluding any savings from the freezing of step and merit increases as approved by Council on April 27, 2010.

For employees in the Police and Fire Department Retirement Plan, they will make an equivalent contribution, following the same criteria as above, into the Police and Fire Department Retirement Plan.

EVALUATION AND FOLLOW-UP

Other than adoptions of retirement contribution ordinances, staff does not anticipate any follow-up actions necessary at this time.

PUBLIC OUTREACH/INTEREST

- ☐ **Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater.
(Required: Website Posting)
- ☒ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

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- ☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This item meets Criterion 2. This memorandum will be posted on the City's website for the June 15, 2010, Council Agenda.

COORDINATION

This memorandum was coordinated with the City Attorney's Office, the Office of Employee Relations, and the City Manager's Budget Office. The recommendations in this memo have been discussed with members of the Executive Management and Professional Employees (Unit 99) Forum. Council Appointees have been informed through the participants of the Unit 99 Forum, as well as during Senior Staff discussions.

COST IMPLICATIONS

These terms meet the goal of a 5% one-time total compensation reduction, for a total of a 10% total compensation reduction. The approval of these terms will reduce the total compensation for executive management and professional employees in Unit 99 and other unrepresented employees. The calculated savings to the City is approximately \$2.3 million in all funds and approximately \$1.5 million in the General Fund. This is in addition to the savings already attributed in the Fiscal Year 2010-2011 Proposed Budget for the first 5% ongoing total compensation reduction as approved by the City Council on April 27, 2010. These cost savings are projected based on the Fiscal Year 2010-2011 Base Budget. It should be noted, however, that the actual amount of General Fund and all funds savings would need to be adjusted to reflect the City Manager's 2010-2011 Proposed Operating Budget as amended/approved by the City Council, any associated impacts on revenue from lower overhead or other reimbursements, any adjustments to the cost-recovery fee program, and the actual healthcare costs for each individual employee based upon eligibility, elections for coverage and the associated funding source.



Debra Figone
City Manager

For questions please contact Alex Gurza, Director of Employee Relations, at (408) 535-8150.